



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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September 10, 2008

Ms. Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board
400 R Street, Suite 500
Sacramento, CA 95811

Dear Ms. Nauman:

Final Report—Victim Compensation and Government Claims Board, Quality Assurance Review

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its Quality Assurance Review of the Victim Compensation and Government Claims Board's (Board) Office of Audits and Investigations for the period July 1, 2005 through June 30, 2008.

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of the Board's staff. If you have any questions regarding this report, please contact Richard R. Sierra, Manager, or Zachary Stacy, Supervisor, at (916) 322-2985.

Sincerely,

Original Signed by:

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Amy Cheung, Audit Chief, Office of Audits and Investigations, Victim Compensation and Government Claims Board

A QUALITY ASSURANCE REVIEW

Victim Compensation and Government Claims Board Office of Audits and Investigations

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE AUDIT TEAM:

Richard R. Sierra, CPA
Manager

Zachary Stacy
Supervisor

Staff

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This report is also available on our website at <http://www.dof.ca.gov>

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Background

The California Victim Compensation and Government Claims Board (Board) provides oversight for several programs within California's State and Consumer Services Agency. Programs the Board oversees include: Citizens Indemnification, Revenue Recovery, Civil Claims against the state, Citizens Benefiting the Public, and County Special Election Reimbursements. The primary objectives of the Board are to:

- Compensate victims of violent crime and eligible family members for certain crime-related financial losses.
- Review and act upon civil claims against the state for money or damages.
- Resolve bid protests with respect to the awarding of state contracts for the procurement of goods and services.
- Provide for reimbursement of counties' expenditures for special elections called for by the Governor to fill vacant seats in the Legislature and Congress.
- Determine the eligibility of individuals for compensation for pecuniary injury sustained through erroneous conviction and imprisonment.
- Determine expenses and allowances to be paid to legislators, elected state officers, and members of the judiciary while traveling on official state business.

The Board's Office of Audits and Investigations (OAI) performs audits, reviews, and analyses of the Board's systems and programs.

The Department of Finance, Office of State Audits and Evaluations, conducted this quality assurance review in accordance with Government Code Section 13071, which requires the state's internal auditors to comply with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*. These *Standards* require that the OAI receives an external quality assurance review at least once every five years.

Review Objectives/Scope

The primary objectives of the quality assurance review were to: (1) provide an opinion on the OAI's compliance with the *Standards*, (2) appraise the quality of the OAI's operations, and (3) provide recommendations for improving the OAI's compliance with the *Standards*.

The *Standards* encompass the following:

- The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Attribute Standards:

- 1000—Purpose, Authority, and Responsibility
- 1100—Independence and Objectivity
- 1200—Proficiency and Due Professional Care
- 1300—Quality Assurance and Improvement Program

Performance Standards:

- 2000—Managing the Internal Audit Activity
- 2100—Nature of Work
- 2200—Engagement Planning
- 2300—Performing the Engagement
- 2400—Communicating Results
- 2500—Monitoring Progress
- 2600—Resolution of Management's Acceptance of Risks

- The Institute of Internal Auditors' *Code of Ethics*.

Review Methodology

In order to assess the OAI's compliance with the *Standards*, we reviewed its activities for the period July 1, 2005 to June 30, 2008. We conducted our review in accordance with the Institute of Internal Auditors' *Quality Assessment Manual, Fifth Edition (Manual)*. The review included:

- A review of the OAI's self-study report, which provided background information concerning its organizational status, operating environment, practices, policies, and procedures.
- Interviews with the Board's Executive Officer; Deputy Executive Officer, Victim Compensation; Deputy Executive Officer, Fiscal Services; and Chief Audit Executive.
- Surveys sent to selected audit customers and internal audit staff, which solicited their responses concerning the scope, nature, and quality of internal auditing.
- A review of audit policies, procedures, practices, and information used for managing the OAI.
- Reviews of selected OAI audit reports and working papers.

We conducted our fieldwork May through August 2008.

Types of Opinions

In issuing our opinion we followed the *Manual*, which defines the following opinions:

Generally Conforms—Policies, procedures, and an internal auditing charter existed and were deemed to be in accordance with the *Standards*. Any deficiencies found in applying the policies, procedures, and charter provisions were deemed minor.

Partially Conforms—Policies, procedures, and an internal auditing charter existed, but they were not in complete compliance with the *Standards*, or significant deficiencies in practice were found that deviated from the *Standards*.

Does Not Conform—Existing policies, procedures, and an internal auditing charter, where present, were deemed not to comply with the *Standards*, and/or deficiencies in practice were so significant as to seriously impair audit quality.



O PINION

Ms. Julie Nauman, Executive Officer
Victim Compensation and Government Claims Board
400 R Street, Suite 500
Sacramento, CA 95811

We completed an independent quality assurance review of the Victim Compensation and Government Claims Board's Office of Audits and Investigations (OAI) based on an evaluation of the OAI's practices and audits completed during the period July 1, 2005 to June 30, 2008. In our opinion, the OAI generally conforms with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.

This opinion means that policies, procedures, and an internal auditing charter existed and were deemed to be in accordance with the *Standards*. Any deficiencies found in applying the policies, procedures, and charter provisions were deemed minor.

We met with the Board's Executive Officer and Chief Audit Executive on August 4, 2008, to discuss our observations as reported in the Results section of this report.

This report is intended solely for the information and use of the Board's management and is not intended to be and should not be used by anyone other than this specified party. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Original Signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

August 22, 2008

REVIEW RESULTS

This section contains our observations on the Victim Compensation and Government Claims Board's (Board) Office of Audits and Investigations' (OAI) compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. For each category, we cite the *Standard* and discuss the OAI's compliance.

- A. 1000—Purpose, Authority, and Responsibility (Charter): The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by senior management.**

The OAI complies with this *Standard*. The OAI has a written audit charter which defines its purpose, authority, and responsibility. Additionally, the charter establishes the OAI's role within the Board and provides a basis for management's evaluation of its operations.

- B. 1100—Independence and Objectivity: The internal audit activity should be independent, and internal auditors should be objective in performing their work.**

The OAI complies with this *Standard*. The OAI's independence is achieved through its reporting structure and organizational status. The OAI's Chief Audit Executive (CAE) reports administratively and functionally to the Board's Executive Officer, who in turn, reports to the three-member governing body. The OAI's staff have full and free access to all Board activities, records, documentation, property, and personnel.

- C. 1200—Proficiency and Due Professional Care: Engagements should be performed with proficiency and due professional care.**

The OAI appropriately supervises its staff to assure conformance with the *Standards*. The OAI's management and staff collectively possess the knowledge and skills essential for the professional practice of internal auditing.

- D. 1300—Quality Assurance and Improvement Program: The CAE should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness.**

The CAE and supervisor provide timely reviews of all working papers and audit reports. Review notes are prepared by the CAE or supervisor to give constructive feedback to the auditor for continuous improvement. In addition, the OAI utilizes staff training to enhance the quality and effectiveness of its activities. Although not part of a formal review program, these procedures, when combined with the audit staff's experience, ensure compliance with the *Standards*.

- E. 2000—Managing the Internal Audit Activity: The CAE should effectively manage the internal audit activity to ensure it adds value to the organization.**

The OAI complies with this *Standard*. Audit plans are prepared in accordance with the *Standards* and presented quarterly to the Executive Officer. Policies and procedures are sufficient to guide OAI staff.

- F. 2100—Nature of Work: The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.**

The nature of OAI's work conforms to the *Standards*. The scope of work includes the examination and evaluation of the Board's internal control and risk management programs.

- G. 2200—Engagement Planning: Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing, and resource allocations.**

The OAI's audit work is performed in accordance with the *Standards*. The working papers contain evidence of planning in audit planning documents.

- H. 2300—Performing the Engagement: Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.**

The OAI's audit work is performed in accordance with the *Standards*. The working papers contain sufficient and appropriate evidence and information to support the conclusions and reports.

- I. 2400—Communicating Results: Internal auditors should communicate the engagement results.**

The OAI's audit work is performed in accordance with the *Standards*. Audit reports are accurate, objective, constructive, and complete. The Executive Officer receives all audit reports. Reports are also distributed to specific Board staff and management responsible for implementing the recommendations.

- J. 2500—Monitoring Progress: The CAE should establish and maintain a system to monitor the disposition of results communicated to management.**

The OAI's audit work is performed in accordance with the *Standards*. Follow-up procedures are established by policy and are implemented by the OAI.

- K. **2600—Resolution of Management’s Acceptance of Risks:** When the CAE believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the CAE should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the CAE and senior management should report the matter to the Department directors/audit committee for resolution.

The OAI’s audit work is performed in accordance with the *Standards*. The CAE discusses all significant matters with the Executive Officer. No instances were noted where management accepted residual risk as defined above.

- L. ***Code of Ethics:*** The *Code of Ethics* are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

The OAI’s management and staff demonstrate compliance with the *Code of Ethics* through the performance of their assigned duties, policies and procedures, and professional conduct.